

KERR
ADDISON
MINES
LIMITED



CORPORATE PROFILE

Kerr Addison is an experienced mine operator, developer and an aggressive explorer for minerals, participates in oil and gas exploration, development and operations, and holds extensive investments in the resource industries. The Company was incorporated over fifty years ago and has paid dividends for 50 consecutive years.

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ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders will be held in Commerce Hall of Commerce Court West, King and Bay Streets, Toronto, Ontario on Friday, May 11, 1990 at 11:30 a.m.

COVER

The ore samples, zinc pellets and oil shown on the front cover and throughout this report represent Kerr Addison's operations in those resource industries.

KERR ADDISON MINES LIMITED

Suite 3970
P.O. Box 91, Commerce Court West
Toronto, Ontario
M5L 1C7

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE is hereby given that the Annual Meeting of Shareholders of Kerr Addison Mines Limited will be held in Commerce Hall, Concourse Level, Commerce Court West, Bay and King Streets, Toronto, Ontario on

MONDAY, MAY 15, 1989

at 11:30 a.m. (Toronto Time) for the following purposes:

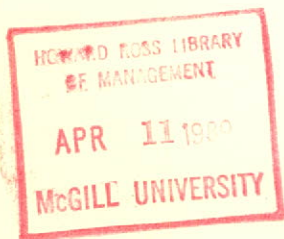
1. to receive the Annual Report, including financial statements and Auditors' Report for the fiscal year ended December 31, 1988;
2. to elect Directors;
3. to appoint auditors and authorize the Directors to fix the remuneration of the auditors; and
4. to transact such other business as may properly come before the meeting or any adjournment thereof.

A copy of each of the said reports and financial statements and an Information Circular accompany this notice.

DATED at Toronto, Ontario, this 4th day of April, 1989.

By Order of the Board,

JOHN B. SAGE
Secretary



Shareholders are entitled to vote at the meeting either in person or by proxy. If it is not your intention to be present at the meeting, please exercise your right to vote by promptly signing, dating and returning the attached form of proxy in the envelope provided for that purpose.

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M5L 1C7

INFORMATION CIRCULAR for the ANNUAL MEETING OF SHAREHOLDERS to be held on May 15, 1989

SOLICITATION OF PROXIES

This circular is furnished in connection with the solicitation by the management of Kerr Addison Mines Limited (hereinafter referred to as the "Corporation") of proxies to be voted at the Annual Meeting of Shareholders to be held on the 15th day of May, 1989 and at any and all adjournments thereof, for the purposes set forth in the accompanying Notice of Meeting. The solicitation is intended to be primarily by mail and the cost thereof will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

The persons designated in the accompanying form of proxy are Officers of the Corporation. A shareholder has the right to appoint some other person to represent him at the meeting and he may exercise this right by striking out the names of the persons designated and by inserting such person's name in the blank space provided in the form of proxy. The accompanying form of proxy, when properly signed, confers discretionary authority with respect to amendments or variations of matters identified in the accompanying Notice of Meeting and other matters which may properly be brought before the meeting.

All shares represented by properly executed proxies in the accompanying form deposited with The Royal Trust Company, Corporate Trust Services, P.O. Box 7500, Station "A," Toronto, Ontario, M5W 1P9, prior to the date of the meeting or with the Chairman of the meeting prior to its commencement, will be voted or withheld from voting as directed. In the event no direction is given it is intended that the proxy will be voted **FOR** in each case.

If the appointor is a corporation the instrument of proxy must be signed under its corporate seal or under the hand of an officer or attorney so authorized.

A shareholder who has appointed a proxy in the accompanying form has the power to revoke it at any time before it is exercised by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either with the Secretary of the Corporation at its head office at Suite 3970, Commerce Court West, Toronto, Ontario M5L 1C7 prior to the date of the meeting or with the Chairman of the meeting prior to its commencement.

VOTING SHARES AND PRINCIPAL HOLDER THEREOF

The Corporation's issued and outstanding capital consists of 17,546,402 Common Shares without par value. Each shareholder is entitled to one vote for each share registered in the shareholder's name on the list of holders of Common Shares prepared as of the March 31, 1989 Record Date, unless a person has transferred shares after March 31, 1989 and the new holder of such shares establishes proper ownership and requests at any time before the meeting to be included on the list of shareholders.

Noranda Inc. beneficially owns 8,811,807 Common Shares of the Corporation, representing 50.2% of the presently issued and outstanding shares. No other person or corporation is known to the management to beneficially own more than 10% of the issued shares of the Corporation.

ELECTION OF DIRECTORS

There will be ten (10) Directors elected at the said shareholders' meeting, each to hold office until the next annual meeting or until his successor is elected or appointed. Proxies given pursuant to this solicitation by management will be voted **FOR** the election as Directors of the following proposed nominees, all of whom are presently Directors of the Corporation.

<i>Name and office held with the Corporation</i>	<i>Principal occupation</i>	<i>Director since</i>	<i>Number of shares of the Corporation owned or controlled</i>
Ian D. Bayer <i>President & Chief Executive Officer</i>	President & Chief Executive Officer of the Corporation	1982	46,136
Jack L. Cockwell	Executive Vice-President and Chief Operating Officer of Brascan Limited (natural resources, consumer products and financial services)	1984	10,000
Philip S. Cross, P.Eng.	Consultant to the Corporation	1978	500
John A. Hall	Company Director — Mining Engineer	1982	1,000
Keith C. Hendrick <i>Chairman of the Board</i>	Senior Vice-President of Noranda Inc. (natural resources developers, operators and manufacturers) and President of Noranda Minerals Inc.	1986	Nil
David W. Kerr	President of Noranda Inc.	1987	10,000
James W. McCutcheon, O.C.	Partner in the firm, Shibley, Righton & McCutcheon (barristers & solicitors)	1975	1,000
E. Courtney Pratt	Senior Vice-President — Human Resources and Strategic Planning of Noranda Inc.	1988	Nil
Jean P. W. Ostiguy	Honorary Chairman of Richardson Greenshields of Canada Limited (investment dealers)	1968	100
Alfred Powis, O.C.	Chairman & Chief Executive Officer of Noranda Inc.	1969	2,711

NOTES: The information as to the number of shares owned or controlled, as shown above, has been provided by the Directors individually. Messrs. Bayer and McCutcheon each hold 1,000 shares and Mr. Cross holds 500 shares of Minnova Inc., a subsidiary of the Corporation.

It is not contemplated that any of the nominees will be unable or unwilling to serve as a Director. If, for any reason any of them shall be unable or unwilling to serve, a substitute will be nominated by management.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors each year elects from its number an Executive Committee of six Directors and an Audit Committee of three Directors. The Directors presently serving on the Executive Committee are Messrs. I. D. Bayer, K. C. Hendrick, D. W. Kerr, J. W. McCutcheon, J. P. W. Ostiguy and A. Powis. The Audit Committee is presently comprised of Messrs. J. W. McCutcheon, J. P. W. Ostiguy and A. Powis.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

1. The "Executive Officers" of the Corporation, as defined in applicable securities legislation, were paid cash compensation, including Directors' fees where applicable, by the Corporation and a subsidiary aggregating \$424,496 during the fiscal year ended December 31, 1988. Certain of these Officers also received non-cash personal benefits during the year which did not exceed \$20,000 in aggregate value. The number of Executive Officers who are paid such cash compensation was reduced from five to four during the year.
2. Under the Share Purchase Plan of the Corporation established in 1970, the Board of Directors from time to time authorizes the Corporation to make interest-free loans to a corporate trustee to be applied in payment of the subscription price of Common Shares of the Corporation to be purchased

by the trustee from treasury for sale to key employees of the Corporation or of its subsidiaries of the Corporation. Each employee gives the trustee a promissory note for the price of the shares sold to him and pledges the shares as collateral security for the payment of the note, which is required within seven years from the sale date. The Plan was amended in 1987 to provide that loans made thereafter shall bear interest equal to the cash dividends paid on the pledged shares, and must be repaid within a maximum period of five years. A total of 5,000 Common Shares were issued and sold under the Plan in 1988 to a key employee at a subscription price equal to 90% of the market price of the shares at the time.

Indebtedness of the "Senior Officers," as defined in applicable securities legislation, and other employees of the Corporation under the Share Purchase Plan during the year ended December 31, 1988 was and at present is as follows:

<i>Name</i>	<i>Largest amount outstanding during year ended December 31, 1988</i>	<i>Amount currently outstanding</i>
Ian D. Bayer, Toronto, Ontario	\$1,051,795	\$751,740
Peter Bojtos, Willowdale, Ontario	243,000	243,000
Arthur H. Cross, Scarborough, Ontario	164,522	122,647
John B. Sage, Etobicoke, Ontario	107,268	87,498
Other employees (in the aggregate)	190,290	190,290

3. Under a Stock Option Plan established in 1963, the Directors of the Corporation may grant stock options to certain key employees of the Corporation, dependent upon their seniority, earnings level or other special qualifications. The purchase price for the shares of the Corporation under the option shall be the fair market value of the Corporation's shares traded on The Toronto Stock Exchange at the time of the grant. The option period shall be up to ten years, and no more than one-quarter of the shares under any option may be purchased in any one option year.

During the most recently completed financial year, stock options granted to certain of the Executive Officers in previous years were exercised, and the aggregate net value (market price less exercise price) of the relevant options at the dates of exercise was \$3,836.

4. In accordance with the By-laws of the Corporation, each Director is remunerated for his services as a Director at such rate as the Board may from time to time determine, and is reimbursed in respect of the out-of-pocket expenses incurred by him in attending meetings of the Board or of any committee of the Board of which he is a member. Each Director of the Corporation who is not a full time employee of the Corporation is eligible to be compensated at the rate of \$10,000 per annum. Each Director who is not an Officer or full time employee of the Corporation is also eligible to be compensated at the rate of \$500 for each meeting of any committee of the Board attended by him.

APPOINTMENT OF AUDITORS

Proxies given pursuant to this solicitation by management will be voted in favour of the reappointment of Messrs. Clarkson Gordon, Chartered Accountants, as auditors of the Corporation to hold office until the close of the next annual meeting of shareholders, and for the authorization of the Board of Directors of the Corporation to fix the remuneration of the auditors.

OTHER BUSINESS

Management of the Corporation knows of no matters to come before the meeting other than the matters referred to in the Notice of Meeting. However, if matters not now known to management should properly come before the meeting, shares represented by proxies solicited by management will be voted on each such matter in accordance with the best judgment of the nominees voting same.

APPROVAL

The contents and the sending of this Information Circular have been approved by the Board of Directors of the Corporation.

DATED at Toronto, Ontario, this 13th day of March, 1989.



JOHN B. SAGE
Secretary

FINANCIAL SUMMARY
(millions of dollars)

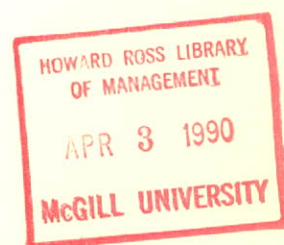
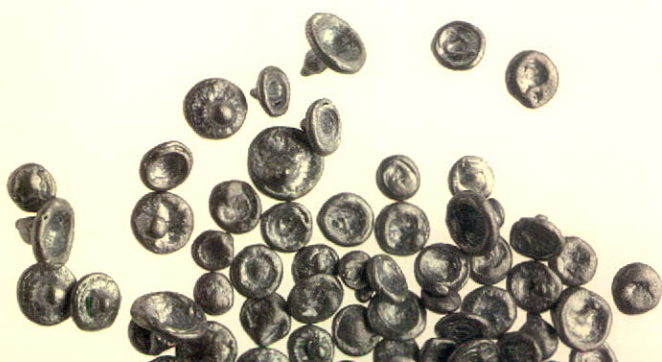
	1989	1988	1987	1986	1985
Net sales	\$131.7	\$109.9	\$ 90.2	\$ 59.2	\$ 48.0
Net income	12.6	10.5	24.0	5.1	2.5
Cash and short-term securities	94.7	128.2	203.1	74.3	36.7
Total assets	663.0	683.3	695.7	518.1	388.7
Long-term debt	125.0	125.0	135.0	50.0	5.0
Shareholders' equity	350.4	348.2	348.1	331.1	336.2
<i>(dollars per share)</i>					
Net income	\$ 0.72	\$ 0.60	\$ 1.38	\$ 0.30	\$ 0.14
Dividends declared	0.60	0.60	0.60	0.60	0.60

IN THIS REPORT Dollars are Canadian unless otherwise noted.

As at December 31, 1989 U.S. \$ = Cdn. \$1.16 (1988: U.S. \$ = Cdn. \$1.23)

HIGHLIGHTS

- The Ansil copper mine commenced commercial production in July 1989.
- The Samatosum silver and base metals mine commenced commercial production in July 1989, ahead of schedule.
- The Lac Shortt gold mine deepening project progressed towards completion on schedule and on budget.
- Canadian Electrolytic Zinc's major modernization project proceeded on schedule and within budget.
- Anderson Exploration Ltd. had record levels of production volumes, cash flow and earnings for 1989.
- Kerr Addison paid dividends for its fiftieth consecutive year.





*Ian D. Bayer,
President and Chief Executive Officer*

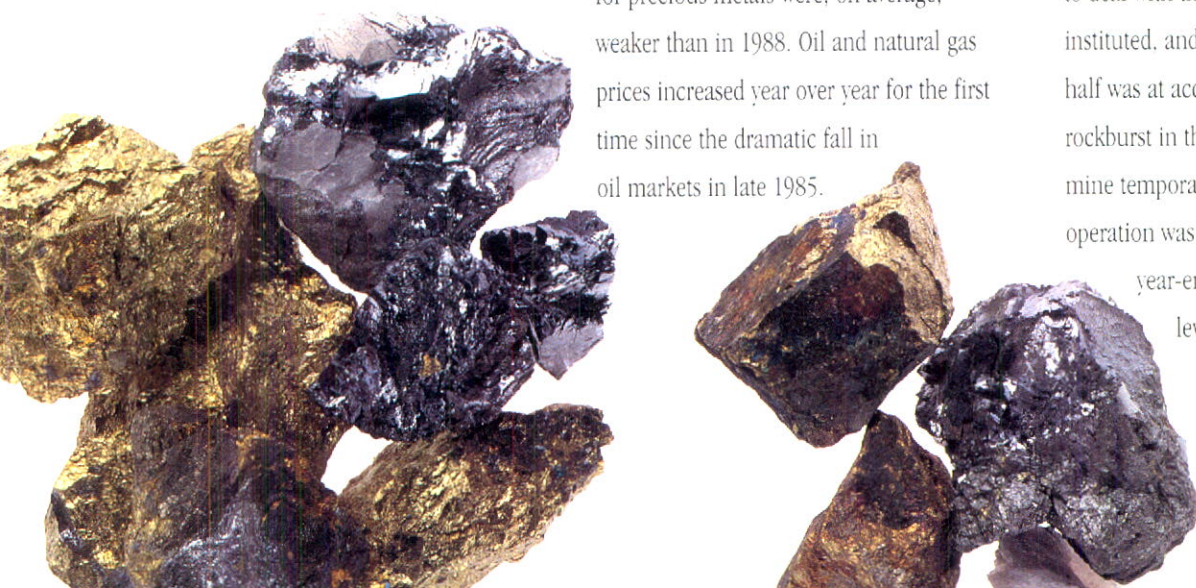
1989 In Review Although earnings increased slightly in 1989, the operating results from the mining side of our business were disappointing. While a great deal was accomplished, a number of production shortfalls overshadowed some important successes. Most significantly, two new mines were brought into production, increasing the Company's operating divisions to five, and further diversifying our product base.

Three of our underground mines did not meet production targets during 1989, primarily because of a variety of problems relating to ground conditions. Individually, these occurrences were not unusual. Unfortunately, they all took place during one fiscal year and contributed to our unsatisfactory operating results. On the other hand, increased investment income and a record performance by Anderson Exploration offset the mining losses.

Base metal prices were exceptionally strong during 1989. However, we did not benefit fully from these price improvements because of the appreciation of the Canadian dollar relative to the U.S. currency in which our products are priced. Conversely, markets for precious metals were, on average, weaker than in 1988. Oil and natural gas prices increased year over year for the first time since the dramatic fall in oil markets in late 1985.

Mining Commercial production commenced in July at the Lac Dufault Division's Ansil copper mine and at the 70% owned Samatosum precious and base metals mine. The Company's capital costs for the Ansil mine were \$63 million, or 5% over budget. Completion of this project was delayed about three months, primarily because difficult ground conditions were encountered in a critical section of the ore pass system. This problem affected production over the balance of the year and will likely restrict output during the first half of 1990, until rehabilitation work has been completed. The Samatosum mine began production ahead of schedule and within the \$31 million capital cost estimate. The operation performed well over the balance of the year, a credit to all employees of that Division, as they completed the feasibility study, construction and development of the mine, all within a period of 16 months.

A number of serious ground falls during the first half of the year prevented the Winston Lake zinc mine from achieving its production targets for the year. However, by mid-year, the operating procedures necessary to deal with these conditions had been instituted, and production for the second half was at acceptable levels. In November, a rockburst in the shaft at the Lac Shortt gold mine temporarily halted production. This operation was back to 50% of its capacity by year-end and was at full production levels by February 1990. The deep development program



at Lac Shortt is nearing completion. The Opemiska gold-copper mine achieved production targets for the year, but incurred an operating loss, partly due to high exploration expenditures. In December, the Company announced a 20% reduction in the work force at Opemiska, being a result of the rationalization necessary to place the operation back on to a profitable footing. Zinc slab production at Canadian Electrolytic Zinc (C.E.Z.) declined by 13% from the previous year because of recurring operating problems in the leaching and purifying sections of the plant.

Two capital projects were in progress at year-end, the deep development program at Lac Shortt and the plant modernization at C.E.Z. Both projects are on schedule, as production from below the 500 level at Lac Shortt will commence in the second quarter of 1990 and operation of the new cellhouse at C.E.Z. should begin in the fourth quarter.

Mineral exploration expenditures were \$21.4 million in 1989, including \$15.6 million of surface exploration managed from our five regional offices, \$4.3 million of underground exploration at our operating mines and \$1.6 million on the Moberly 1100 lens which is discussed below in more detail. This represents a substantial effort for a company our size, and reflects our long term financial commitment to, and the confidence we have in, our exploration group. Although we did not make any significant new discoveries in 1989, we did increase our knowledge of our major project

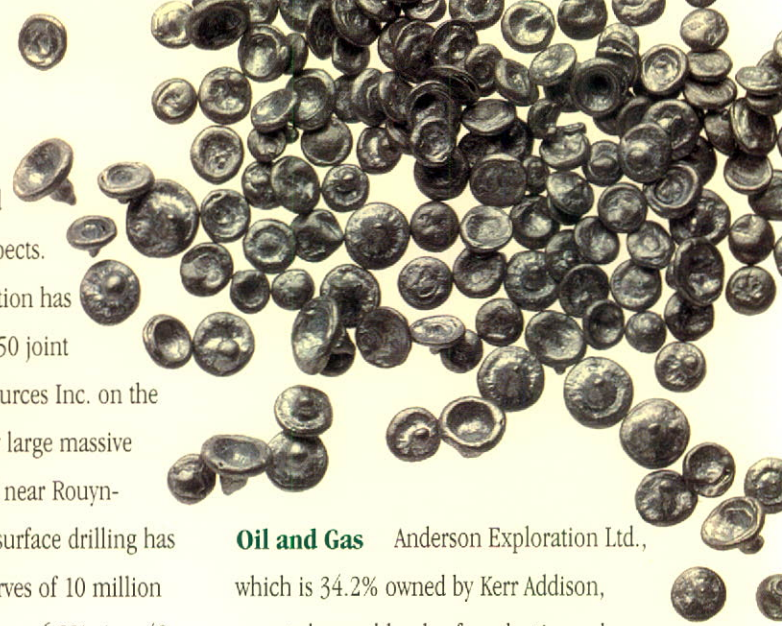
areas and have developed some excellent new prospects.

Underground exploration has commenced under a 50/50 joint venture with Audrey Resources Inc. on the Moberly 1100 lens, a new large massive sulphide deposit, located near Rouyn-Noranda. Widely-spaced surface drilling has indicated geological reserves of 10 million tonnes grading 0.9% copper, 6.2% zinc, 43 grams of silver per tonne and 1.6 grams of gold per tonne. Minnova has agreed to spend up to \$10 million on further exploration and development of these reserves. This program is intended to evaluate whether this property can sustain a 3,000 tonnes per day mining operation, 50% of which would be taken-in-kind by Minnova and treated at Lac Dufault's Norbec concentrator located 16 kilometers away. Positive results could provide an additional decade of production for the Lac Dufault Division.

An internal viability study based on the results of the underground evaluation program on Minnova's Donalda property, also located near Rouyn-Noranda, was completed in the fourth quarter. This study indicates that the project requires gold prices above current levels to provide an acceptable return on investment. As a result, the Company has decided to suspend further development indefinitely and has written off the \$7.2 million carrying value of the property.

Oil and Gas Anderson Exploration Ltd., which is 34.2% owned by Kerr Addison, reported record levels of production volumes, cash flow and earnings for 1989. An exploration concept initiated in 1984 developed into a major play in 1989 and resulted in the discovery of twelve new oil pools. In addition, several natural gas accumulations were found. As these oil exploration successes occurred during the second half of the year, increased exploration activity in 1990 should provide further increases in average daily oil production. During 1989, Anderson replaced 150% of its gas and liquids production on the basis of proven reserves. At September 30, 1989, proven natural gas reserves had increased to 556 billion cubic feet, while proven crude oil and natural gas liquids reserves increased to 15.3 million barrels.

Effective January 1, 1989, Kerr Addison sold substantially all of its 13% interest in the Canadian Hunter Joint Venture to Noranda Inc. for total proceeds of \$76.5 million, comprised of \$18.0 million of cash and



\$58.5 million of redeemable preferred shares. The preferred shares pay dividends at the rate of 70% of bank prime rate and are redeemable in five equal annual amounts commencing March 31, 1990. The total gain on the sale of \$31.8 million is being recognized in income only when cash payments are received by the Company. Accordingly, \$7.6 million was reflected in income in 1989, and the balance of \$24.2 million has been deferred to future years.

Investments Investment income increased to \$25.5 million in 1989, partly reflecting dividends received on the preferred shares acquired on the sale of Canadian Hunter. Investments provide a strong earnings base for the Company, which was all the more apparent in 1989 when the mining sector had unsatisfactory results. Financial assets also provide flexibility and liquidity, permitting the Company to act expeditiously should attractive acquisition opportunities arise.

The Company's major investment consists of its remaining 7.4 million common shares of Noranda Inc. The Company

became a subsidiary of Noranda in late 1987 and, accordingly, must dispose of its share holdings in Noranda within the next three years to comply with statutory requirements. Noranda's earnings for 1989 were \$442 million, or \$2.19 per share, compared to \$3.14 per share a year earlier. These results reflected a variety of production problems at Noranda Minerals, weakening product prices and the high value of the Canadian dollar.

Financial Results Net income for 1989 was \$12.6 million, or 72 cents per share, compared to earnings of 60 cents per share during the previous year, reflecting higher investment income and an increased share of profit from Anderson Exploration Ltd.

Metal sales for the year increased over 1988 because of the initial six months' production from the new Ansil and Samatosum mines and a full year's production from Winston Lake, which had commenced operation in April 1988. These increases more than offset the loss of oil and gas production from the Canadian

Hunter Joint Venture. Metal production was constrained by the operating shortfalls previously discussed in this report. In addition, higher operating

costs were incurred as corrective measures were taken to overcome those problems. The \$7.6 million gain on the sale of Canadian Hunter was partly offset by losses on the disposal and write-down of holdings in junior mining companies. Also, overall profits were adversely affected by the write-off of the carrying value of Minnova's Donalda project. The substantial improvement in the results of Anderson Exploration Ltd. were due to increased oil production and investment profits.

Cash and short-term investments declined by \$33.5 million during the year to a balance of \$94.7 million at December 31st. Capital expenditures were \$48.2 million, including the costs to complete construction and development of the Samatosum and Ansil mines, the deep development program at Lac Shortt and the plant modernization project at C.E.Z. Non-cash working capital increased by \$15.6 million, reflecting the build-up of concentrate inventories at the two new operations. Proceeds during 1989 from the disposal of the Canadian Hunter interest included \$18.0 million of cash and \$58.5 million of redeemable preferred shares. Dividends paid in 1989 amounted to 60 cents per share, similar to the previous year. This represented the 50th consecutive year that the Company had paid dividends.

Corporate Strategy As we move into 1990, it is appropriate that we consider some of the challenges which will significantly affect the mining industry during



the next decade. Mining is an international business, and Kerr Addison must be at the forefront of new developments to maintain its competitive position. Productivity improvements will be derived primarily from technological innovations.

The Company is striving for excellence in all three sectors of the mining business — finding, developing and operating competitive mines. The focus is on the long term, with exploration being the driving force for future profitable growth. Fundamental to our future are professional, qualified and dedicated personnel, quality operating assets and strong financial backing. The Company introduced an employee share savings plan in 1989 to encourage our people to be owners of the Company. Bonus-incentive systems based on performance are widely used. There will be even greater strides taken to involve people more effectively in their work, to give them more autonomy in what they do and how they do it.

The Company has invested over \$178 million in developing new mines and upgrading existing facilities during the past four years. Despite this activity, financial flexibility has been maintained. Anderson Exploration has stated similarly that it intends to grow through exploration and development. In order to pursue its opportunities in 1990, Anderson has established a capital expenditure budget of \$71 million, more than doubling its 1989 expenditures.

Environmental issues are now the number one public concern of Canadians

and will continue to be important as we attempt to create a better balance between our natural environment and economic development. We are committed to the principle of sustainable development with responsible environmental management. The push for better protection of employees from industrial impairment will continue in the work place. During the past year, significant improvements in lost-time accident frequencies were achieved at three of our mines.

Outlook Growth in industrial production for the OECD countries is slowing, particularly in North America. Base metal prices have declined from the high levels which existed during the first half of 1989 and we anticipate some further price weaknesses during 1990. However, with world metal inventories at reasonable levels and with the potential for supply disruptions, we do not expect a dramatic fall in prices. Precious metal markets have been strengthening since the fourth quarter of 1989, primarily because of international conditions and increasing investor acceptance. We do not see a significant upside to oil prices, but supply and demand for natural gas in North America are back in balance. This has resulted from increasing demand for natural gas in the electrical generation sector spurred on by environmental concerns. In Canada, with its background of large government deficits, high interest rates and an artificially high currency, our exporting industries face these additional challenges in remaining internationally competitive.

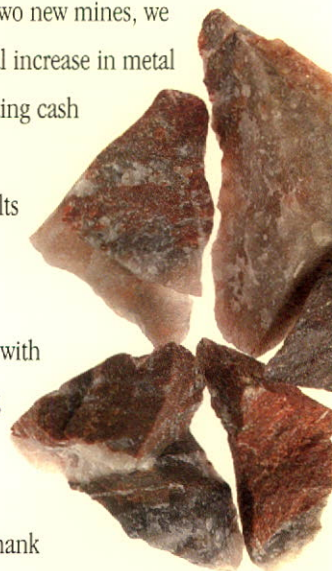
Our principal objectives for 1990 are to build ore reserves and meet our production targets. Three of our operating divisions are in relatively new mining camps and offer exceptional potential for new discoveries. Elsewhere, we have a number of excellent exploration prospects. With a full year's production from our two new mines, we anticipate a substantial increase in metal production and operating cash flow in 1990.

The operating results in 1989 masked the fact that our people reacted well and dealt with some very challenging problems during the year. On behalf of the Board of Directors, I thank them for their efforts. We are in this business for the long haul and are well positioned for success in the new decade.



Ian D. Bayer
President and Chief Executive Officer

Toronto, Canada
February 7, 1990



Winston Lake Division The Winston Lake underground mine and milling facility, near Schreiber, Ontario, contributed a \$22.5 million cash operating profit in its first full year of operation compared to \$13.9 million over its initial nine months in 1988. The Division produced 87,790 tonnes of zinc and 9,080 tonnes of copper concentrates during the year.

Underground production was hampered earlier in the year due to serious falls of rock in some stopes. This has been addressed by carrying out extensive cable-bolting on the orebody's hanging wall. Results of this work have been positive. By the fourth quarter the mining rate was at planned levels and operating costs had been significantly reduced to \$74 per tonne. Future reductions in unit operating costs are expected in 1990.

A new rod mill was commissioned in the concentrator at the start of the year. This enabled the mill to achieve a finer grind of the ore resulting in higher ore recoveries and increased concentrate grades.

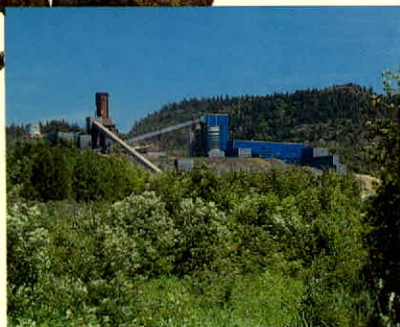
Ongoing exploration at the mine replaced about half of the reserves mined in 1989. The new reserves were located primarily in the downward extension of the deposit. It is anticipated that this high-grade zinc mine will produce 340,000 tonnes of ore in 1990.

Lac Dufault Division

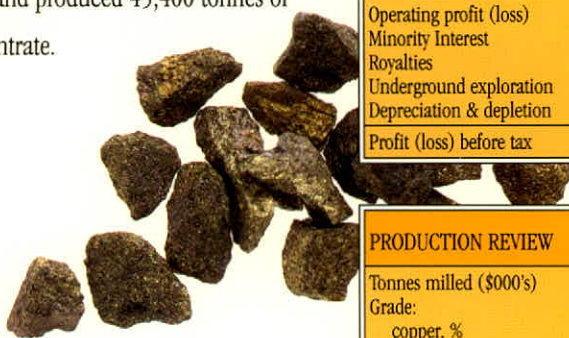
The Ansil high-grade copper mine situated near Rouyn-Noranda, Quebec, started commercial production in July 1989 and produced at a rate of 900 tonnes per day to generate a \$10.7 million cash operating profit. Production of 420,000 tonnes of ore is anticipated for 1990. During the year, \$8 million, net of preproduction credits, was expended to complete the project for a total net cost of \$63.5 million. The construction and start-up of this mine over a four and a half year period has been a significant achievement.

Several incidents in the mine, including the breakdown of the production hoist motor in October, hindered mine production. At year-end, remedial work was under way in a section of the ore pass system to prevent any further caving. Ansil is a deep mine with highly stressed ground conditions which dictate a specific mining sequence to maximize extraction of the rich orebody. The operation's chief priority in the coming year is to maintain full production within the parameters of a stringent mining plan.





The Division's Norbec mill performed to expectations and produced 45,400 tonnes of copper concentrate.



Lac Shortt Division The Lac Shortt gold mine, located west of Chapais, Quebec, contributed a \$5.9 million cash operating profit in 1989 compared to \$7.3 million in the previous year. Gold production was adversely affected by excessive dilution in stoping areas above the 500 level and a rockburst in the shaft halted production for three weeks in December. Full production had resumed by the end of January 1990.

FINANCIAL REVIEW	Winston Lake 1989	1988*	Lac Dufault 1989**	Lac Shortt 1989	1988	Opemiska 1989	1988	Samatsum 1989**
Average price received:								
copper (\$ per pound)	1.31	1.52	1.17	—	—	1.26	1.28	1.32
zinc (\$ per pound)	0.88	0.75	—	—	—	—	—	0.81
lead (\$ per pound)	—	—	—	—	—	—	—	0.38
gold (\$ per ounce)	437.58	506.21	461.81	530.97	530.90	504.44	573.52	443.00
silver (\$ per ounce)	6.74	7.48	6.12	6.57	7.70	6.28	7.95	6.07
(\$000's)								
Net sales	47,043	28,532	21,531	21,283	27,622	18,971	23,221	12,365
Cost of production:								
Mining	14,755	7,432	6,734	6,579	11,157	11,248	11,323	7,921
Milling	5,173	3,638	2,074	3,563	3,604	1,741	1,612	1,992
Plant	1,133	1,113	878	1,878	1,907	4,069	3,679	—
General	3,523	2,417	1,117	3,193	3,208	3,950	3,194	941
	24,584	14,600	10,803	15,213	19,876	21,008	19,808	10,854
Operating profit (loss)	22,459	13,932	10,728	6,070	7,746	(2,037)	3,413	1,511
Minority Interest	—	—	—	132	449	—	—	268
Royalties	—	—	—	—	—	—	—	618
Underground exploration	—	—	147	673	1,505	3,326	3,186	—
Depreciation & depletion	7,538	5,291	7,219	6,185	6,200	146	180	1,872
Profit (loss) before tax	14,921	8,641	3,362	(920)	(408)	(5,509)	47	(1,247)

PRODUCTION REVIEW	Winston Lake 1989	1988*	Lac Dufault 1989**	Lac Shortt 1989	1988	Opemiska 1989	1988	Samatsum 1989**
Tonnes milled (\$000's)	303	220	163	350	371	382	349	79
Grade:								
copper, %	0.92	0.85	7.22	—	—	1.29	1.42	0.94
zinc, %	15.76	16.62	—	—	—	—	—	4.10
lead, %	—	—	—	—	—	—	—	2.23
gold, grams per tonne	1.08	0.85	1.88	3.87	4.66	2.23	2.64	1.40
silver, grams per tonne	31.99	32.25	25.31	—	—	11.65	11.76	739.00
Production:								
copper, pounds (000's)	4,802	3,051	25,022	—	—	10,411	10,545	1,018
zinc, pounds (000's)	99,287	73,755	—	—	—	—	—	4,844
lead, pounds (000's)	—	—	—	—	—	—	—	2,801
gold, ounces	3,835	2,428	8,245	40,083	52,029	24,093	26,551	2,925
silver, ounces	113,841	68,275	103,014	1,659	1,668	120,767	111,379	1,741,000
Operating cost								
\$ per tonne milled	81.18	66.27	67.14	43.51	53.52	54.99	56.74	137.86
Number of employees, December 31	152	145	215	158	171	284	286	53
Lost-time accident frequency per 200,000 hours worked	4.5	7.4	2.5	5.9	1.2	3.8	4.8	5.7

*Based on nine months' production.

**Based on six months' production.

Far Left: The Winston Lake mine site.

Above: A distant view of the Ansil mine which began production in July 1989.

Left: The underground maintenance area at the Ansil mine.



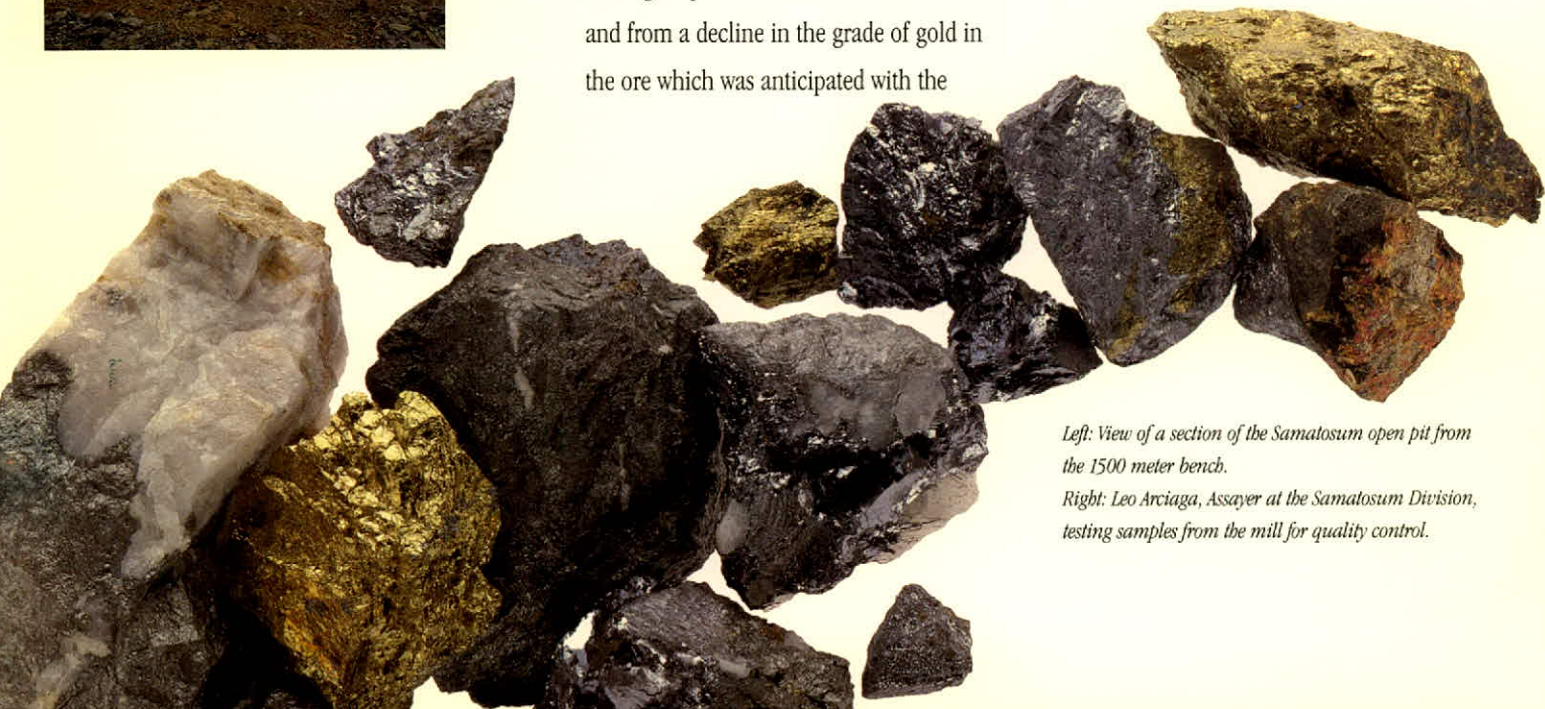
During the year \$11.9 million was spent on the \$20 million mine deepening project which will access ore reserves between the 500 and 800 levels. A total of \$14.9 million has been spent to-date with the shaft deepening, access ramp and crusher excavation having been completed. Production from this section is scheduled to begin during the second quarter of 1990 and will extend the mine's life to 1992. A new mining method has been planned for this deeper ore which should be safer and equally efficient. Further underground exploration will continue from the newly accessed areas.

The mill performed well throughout the year and a cyanide destruction unit for effluent treatment was commissioned in October.

Opemiska Division The Opemiska operation at Chapais, Quebec, had a \$2 million cash operating loss in 1989 compared to a \$3.4 million profit in 1988. This reduction was a result of a significantly lower gold price in Canadian dollar terms and from a decline in the grade of gold in the ore which was anticipated with the

planned closure of the Cooke mine in mid-1989. Intensive underground exploration work has not been successful in identifying significant new reserves, although the tonnage mined in 1989 was replaced at the Springer and Perry mines. The operation's economic reserves are, however, approaching exhaustion. Towards year-end it became necessary to curtail underground exploration and to reduce the Division's personnel by 20% in an effort to restore a positive cash flow.

Samatosum Division The 450 tonnes per day Samatosum open-pit and milling operation, located near Barriere, British Columbia, commenced commercial production in July 1989 and was at full capacity throughout the second half of the year. The operation generated a \$0.6 million cash operating profit.



Left: View of a section of the Samatosum open pit from the 1500 meter bench.

Right: Leo Arciaga, Assayer at the Samatosum Division, testing samples from the mill for quality control.



Total expenditures on the project were \$30.6 million, of which Minnova's 70% joint venture share, net of preproduction credits from the sale of concentrates, was \$20.6 million. Waste stripping in the open-pit was accelerated in the latter half of the year due to the earlier than planned start-up of the operation.

ORE RESERVES at December 31, 1989

Deposit	Tonnes	% Cu	% Zn	% Pb	Ag (g/t)	Au (g/t)	Remarks
Winston Lake	2,586,000	1.1	15.0	—	31.2	1.1	Diluted, proven, probable, and possible
Ansil	1,250,000	7.6	0.8	—	27.2	1.5	Diluted, proven and probable
Lac Shortt	885,000	—	—	—	—	4.8	Diluted, proven and probable
Opemiska	585,000	1.9	—	—	—	1.9	Diluted, proven
Samatosum	711,000	1.0	2.6	1.4	831.0	1.5	Diluted, proven and probable

Legend:

Ag-silver, Au-gold, Cu-copper, Pb-lead, Zn-zinc,
g/t-grams per tonne,

tonne-unit of weight equivalent to 2,204.6 pounds or 1,000 kilograms.

The mill produces separate copper-silver, zinc and lead concentrates. Overall metal recoveries in the mill are close to expectations although some difficulties have been experienced in achieving a consistent separation between the lead and copper-silver concentrates. This difficulty is a function of the variable lead to copper ratios in the mill feed. Favourable smelter terms have been obtained for treating a bulk copper-silver-lead concentrate when individual concentrate limits are exceeded.

Mining and Refining Interests

Minnova Inc.	50.4%
<i>Operating Mines</i>	
Winston Lake Division	100%
Lac Dufault Division	100%
Lac Shortt Division	95.4%
Opemiska Division	100%
Samatosum Division	70%
Canadian Electrolytic Zinc	9.8%
Oil and Gas Interests	
Anderson Exploration Ltd.	34.2%



Kerr Addison is committed to building its ore reserve base through successful exploration and timely acquisition. Significant projects worked on throughout the year were as follows:

Frotet Lake A potentially open-pittable low grade gold-copper deposit containing in excess of 17 million tonnes has been identified. The property is 120 kilometers north of Chibougamau.



Detailed drilling and mineralogical studies are in progress.

Mobrun During 1989 Minnova reached an agreement with Audrey Resources Inc. providing Minnova with an option to convert its 30% net carried interest in the Mobrun mine property into a 50% joint venture interest in the new Mobrun 1100 lens discovery. An underground exploration program is underway to determine the geological characteristics of this base and precious metals massive sulphide deposit. Minnova's portion of the ore could be

milled at its nearby Lac Dufault Division.

Donalda Underground exploration and evaluation of the Donalda gold deposit near Rouyn-Noranda was completed. Based on current prices and cost estimates, it is not planned to bring the reserves to production at this time.

Chu Chua As a result of additional drilling, the mineral inventory of the Chu Chua deposit near the Samatosum operation, was increased to 1 million tonnes containing 3% copper. The complex metallurgical characteristics of this mineralization require further investigation in order to achieve acceptable metal recoveries.

Laramide/Mount Sicker After a major drilling campaign was carried out during the year, the mineral inventory of this deposit remained unchanged at 529,000 tonnes, grading 5.9% zinc and 4.8 grams of gold per tonne. Exploration will continue in 1990 on Minnova's extensive land holdings at Mount Sicker on Vancouver Island, British Columbia.

RFC Resource Finance Corporation

Kerr Addison owns a 44% interest in RFC Resource Finance Corporation, which is currently evaluating the formerly producing Pend Oreille zinc-lead mine in Washington State. Following a successful surface diamond drilling campaign earlier in the year, the old workings were dewatered. A 50,000 foot underground diamond drilling program is now in progress to test the lower, unmined Yellowhead horizon.

The cost of refurbishing the existing 2,400 ton per day mill is being appraised and metallurgical investigations are being carried out. A feasibility study is planned to be completed in the second quarter of 1990.



Above: A geologist examining drill core to determine the characteristics of the mineralization at the drill site.



Canadian Electrolytic Zinc

Zinc slab production at the C.E.Z. refinery in Valleyfield, Quebec, was 190,000 tonnes in 1989, compared to 218,000 tonnes in 1988. The production shortfalls resulted from a number of operational disruptions, primarily in the leaching and purifying sections of the refinery. Accordingly, net income for Kerr Addison in 1989 was \$3.8 million compared to \$6.6 million in 1988.

The \$120 million modernization project progressed on schedule and within budget. By year-end the precast concrete cells had been installed and the building frame enclosed. This new facility is planned to be operational in the fourth quarter of 1990.

Construction of the Battery Grade zinc powder plant was completed. It is currently being commissioned following a successful trial run in October. This plant will produce a specialized zinc powder used in the manufacture of alkaline batteries.

A new three year collective bargaining agreement between C.E.Z. and the employees' union was signed in November.



Above: Loading zinc ingots for shipment at Canadian Electrolytic Zinc.

Right: Canadian Electrolytic Zinc's sulfuric acid plants.



Anderson Exploration Ltd. Anderson Exploration completed its first full year as a publicly traded company with another record year in terms of production and financial performance. Its exploration success was also notable, with the highlight being the discovery of the D-1 oil pools in the Peace River area.

Anderson's land inventory, most of which is in Alberta, increased to 867,000 net acres in 1989 from 759,000 net acres in the previous year. Net expenditures on exploration, development and land acquisition amounted to \$32.3 million. Seismic investigations played a key role in the year's success which resulted, on a proven barrel equivalent basis, in replacing 150% of its 1989 production.

Gas production increased by 3% over 1988 levels in spite of periods of restricted sales from the Dunvegan gas field resulting from problems on the Nova pipeline system. The average gas sales price was \$1.96 per thousand cubic feet. Gas liquid delivery declined by 7% as a result of Anderson's decision to reinject the propane into the gas stream at its Dunvegan plant. This procedure maximizes revenue in periods of low propane and high gas prices. The construction of a



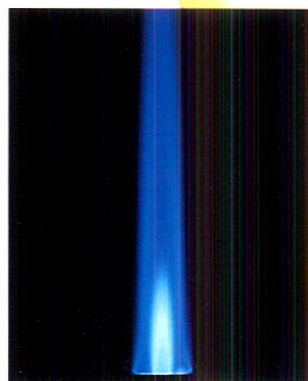
dehydration and compressor station along with a gas gathering system was completed to bring on four new wells in the Paradise area of east central Alberta.

Oil volumes increased 12% over the 1988 levels as new D-1 production came on-stream. The average 1989 oil sales price was \$17.27 per barrel. Thirty-seven new well completions were carried out in 1989 of which twenty-one were for new oil production. By December 1989, the company was producing approximately 4,000 barrels of oil per day.

Anderson Exploration remains confident in the prospects for the petroleum industry in Canada and on its own ability to pursue new and successful exploration and development opportunities. For these reasons that company expects to more than double its 1989 capital expenditures in 1990.

Peter Bojtos, P.Eng.
Vice-President — Corporate Development

Toronto, Canada
February 7, 1990



ANDERSON EXPLORATION LTD.		
HIGHLIGHTS: (September 30th year-end)		
Financial (\$'000's)	1989	1988
Revenues (net of royalty)	\$ 51,000	\$ 48,800
Net earnings	11,000	7,300
Cash flow	34,000	28,000
Net capital expenditures	32,300	24,800
Long-term debt	80,000	85,000
Shareholders' equity	131,000	119,700
Production:		
Natural gas (millions of cubic feet per day)	71.3	69.0
Oil (barrels per day)	1,636	1,464
Natural gas liquids (barrels per day)	1,155	1,242
Reserves:		
Natural gas (billions of cubic feet)		
— Proven	556	543
— Proven plus probable	810	765
Oil and gas liquids (thousands of barrels)		
— Proven	15,298	14,778
— Proven plus probable	23,840	20,997
Drilling Activity:		
Wells drilled		
— Gross	77	74
— Net	49	42

Above: An Anderson Exploration crew making a connection in a drill string.

Operations On July 1st, 1989, two new mines achieved commercial production status, thereby adding to the diversity of metals contributing to the Company's revenues. Zinc, copper, gold, silver and lead, in that order of importance, are the products on which the Company's mining and smelting revenue is based. Sales, net of treatment charges and the cost of concentrates purchased for the zinc refinery, totalled \$131.7 million compared to \$109.9 million in 1988, an increase of 20%. The 1989 figure reflects a full year's production at the Winston Lake zinc mine which had opened on April 1, 1988, as well as the second-half year's production at the Ansil copper mine and the Samatosum polymetallic (silver, gold, copper, zinc and lead) mine. The 1988 net sales included \$14.2 million of gas and oil revenues which have no counterpart in the current year.

Metal production was constrained during the first half of the year by a number of serious ground falls at Winston Lake, and in the fourth quarter by a rockburst in the shaft at Lac Shortt, as well as a hoist motor failure and ore pass problems at Ansil. Lac Shortt is just now back to full capacity and Ansil's production will be restricted somewhat over the first half of 1990 until rehabilitation work on the ore pass has been completed. Winston Lake and Samatosum

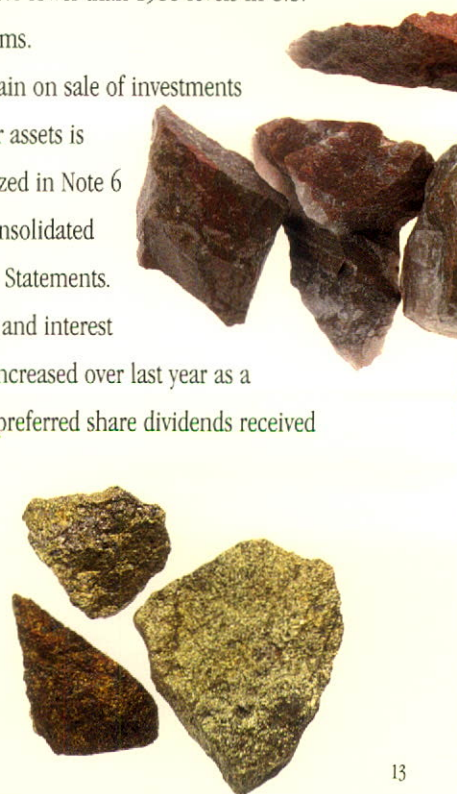
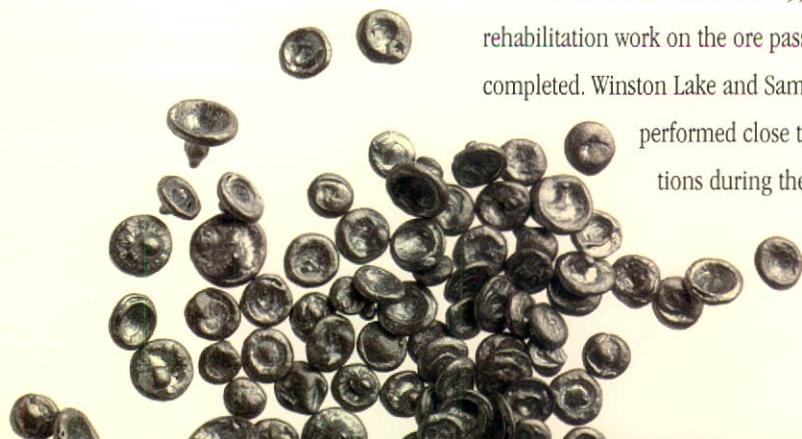
performed close to expectations during the second

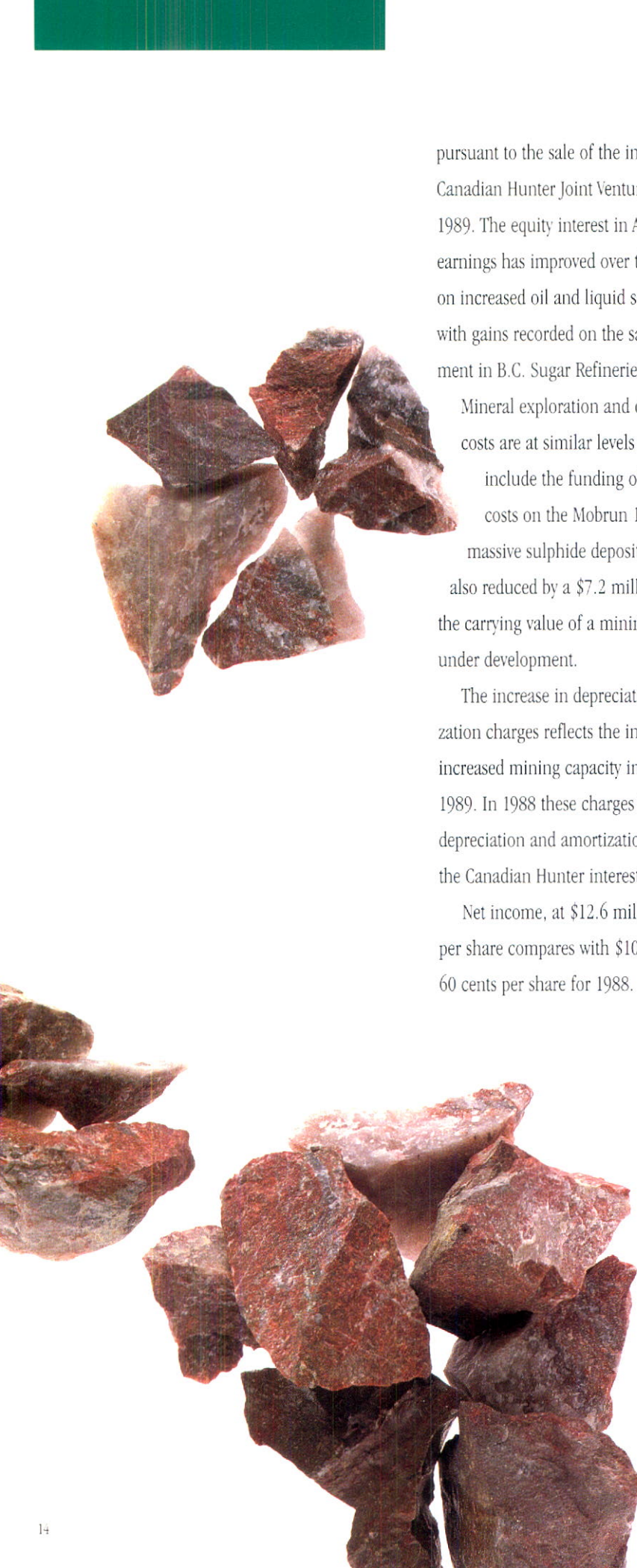
half of the year. An operating loss at Opemiska necessitated a rationalization of that operation, resulting in a 20% reduction of the work force by February 1990. Zinc slab production at C.E.Z. declined by 13% from the previous year because of recurring operating problems in the leaching and purifying sections of the plant.

Production costs increased over last year due to the additional mining capacity in operation during 1989. The costs recorded in 1988 included the operations of Canadian Hunter.

Base metal prices generally rose through most of 1988, peaked in early 1989 and declined through the balance of the year. On average, copper and zinc prices in 1989 were more than 10% above 1988 levels in U.S. dollar terms, but only 5% higher in Canadian dollar terms because of the substantially higher level of the Canadian dollar. Precious metal prices in 1989 were almost 15% lower than 1988 levels in U.S. dollar terms.

The gain on sale of investments and other assets is summarized in Note 6 of the Consolidated Financial Statements. Dividend and interest income increased over last year as a result of preferred share dividends received





pursuant to the sale of the interest in the Canadian Hunter Joint Venture on January 1, 1989. The equity interest in Anderson's net earnings has improved over the 1988 results on increased oil and liquid sales, together with gains recorded on the sale of its investment in B.C. Sugar Refineries Limited.

Mineral exploration and development costs are at similar levels to 1988 and include the funding of the exploration costs on the Mobrun 1100 lens massive sulphide deposit. Earnings are also reduced by a \$7.2 million write-off of the carrying value of a mining property under development.

The increase in depreciation and amortization charges reflects the investment in increased mining capacity in operation in 1989. In 1988 these charges included the depreciation and amortization relating to the Canadian Hunter interest.

Net income, at \$12.6 million or 72 cents per share compares with \$10.5 million or 60 cents per share for 1988.

Capital Expenditures During 1989, \$48.2 million was invested in plant, property and equipment including \$8 million to complete the Ansil mine, \$16 million to complete the Samatosum mine and \$11.5 million on the Lac Shortt mine deepening project. This brings the Company's total investment in new and expanded mines and facilities to \$178 million as follows:

	% Owned	Millions
Winston Lake – zinc	100	\$ 72
Lac Dufault Ansil – copper	100	63
Samatosum – silver, gold, base metals	70	21
Lac Shortt – gold, mine deepening	95.4	15
C.E.Z. – plant modernization	9.8	7
		<u>\$178</u>

In 1990, planned capital expenditures include \$3 million to complete the Lac Shortt deepening for production in the second quarter of that year, a further \$4 million to be spent on ongoing capital replacements and upgrading at the other mines and \$9 million for the Company's share of the C.E.Z. plant modernization project scheduled to be finished in the fourth quarter of 1990.

Liquidity and Capital Resources

The capital expenditures of the past five years have been funded from cash on hand, operating cash flow and from convertible debentures issued by Minnova Inc. in September 1987, which yielded proceeds of \$63 million. The Company's cash position of \$94.7 million on January 1, 1990 is expected to increase substantially from



operating cash flow over the next few years, in the absence of any significant capital expenditures. It is also expected that the preferred shares, held as a consequence of the Canadian Hunter disposal, will be redeemed for cash rateably over the next five years.

Revolving credit facilities with two Canadian chartered banks provide for loans of up to \$230 million. The funds may be borrowed by way of bankers' acceptances (currently \$70 million are outstanding), promissory notes or United States Eurodollar loans. The credit facilities are reviewed annually and the present expiry date is January 1, 1991.

The Balance Sheet is strong, featuring a solid working capital position and an excellent debt/equity ratio. Significant changes on the Balance Sheet, compared with a year ago, are apparent in the reduction of cash and short-term securities reflecting the capital investment in new and expanding mines, the zinc refinery modernization and the increase in investments and other assets as a result of the sale of the Company's interest in the Canadian Hunter Joint

Venture for cash and preferred shares. On the liability side, deferred income taxes are reduced, again as the result of the Canadian Hunter disposal, while the increase in deferred liabilities is the portion of the gain on this sale to be recognized as the preferred shares are redeemed.

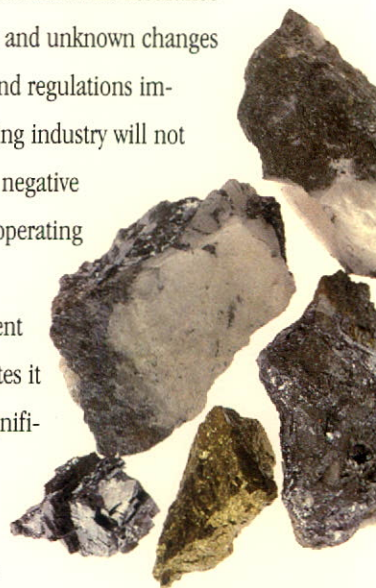
With a strong Balance Sheet and a positive outlook for cash flow the Company is well positioned to seek additional financing, if considered necessary, to avail itself of new opportunities.

Outlook The prices that the Company receives for the products it produces are by and large determined by world-wide influences on supply and demand, and these prices can change dramatically over short periods. As most of these prices are quoted in U.S. or European currencies, the relative value of the Canadian dollar to these currencies also has a significant influence on the final Canadian dollar recorded as sales. As most of the Company's operating costs, at least in the short term, are relatively fixed, prices and foreign exchange movements have an immediate impact on operating earnings.

The relatively short reserve lives of the mines, other than Winston Lake, result in

high amortization costs. This factor is indicative of the need to replenish ore reserves and to this end the Company intends to maintain its commitment to the funding of its exploration programs.

The Company has a small provision in its accounts for the rehabilitation of closed mine sites. It is, however, committed to a program of responsible environmental management and is in compliance with environmental regulations at all of its operations. Currently, studies of the eventual cost of closing each of the mines are under way, and while there can be no assurance that future known and unknown changes in the standards and regulations imposed on the mining industry will not have a substantial negative impact on future operating results, an initial review under current regulations indicates it will not reduce significantly the Company's financial strength.



ACCOUNTING POLICIES

December 31, 1989 and 1988

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The principal accounting policies are summarized hereunder to facilitate review of the consolidated financial statements.

(a) Basis of consolidation The consolidated financial statements include the accounts of Kerr Addison Mines Limited ("Kerr Addison" or "the company"), its 50.4% owned subsidiary company, Minnova Inc. ("Minnova"), and its wholly-owned subsidiary companies, Keradamex, Inc. and Kerramerican, Inc. The company has a direct and undivided interest of 9.8% in all of the properties, production and related activities of Canadian Electrolytic Zinc ("C.E.Z."). Up to December 31, 1988, the company also had a direct and undivided interest of 13.0% in all of the oil and gas properties, production and related activities of Canadian Hunter Exploration Limited ("Canadian Hunter"). Effective January 1, 1989, substantially all of the interest in Canadian Hunter was sold to a subsidiary of Noranda Inc. (see note 6). Noranda Inc. is a major holder and operator of both of these ventures. The company's share of the ventures' assets, liabilities, revenues and expenses is reflected in the consolidated financial statements—C.E.Z. for both years; Canadian Hunter for 1988 only.

(b) Investments in associated companies The investment in the common shares of Noranda Inc. ("Noranda") is accounted for on the cost method.

The investment in the common shares of Anderson Exploration Ltd. ("Anderson") is accounted for on the equity method whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to reflect the company's share of post-acquisition profits or losses.

(c) Revenue recognition Metals contained in concentrates are sold under contracts. Gold bullion and refined metals are sold on a spot basis. Forward sales positions, related to mine production of gold, copper and silver, are taken from time to time. Estimated revenues, based upon anticipated metal prices or forward sales commitments, are recognized when the concentrates, bullion and refined metals are produced. The estimated revenues from metals in concentrates may be subject to adjustment on or before final settlement, usually four months after the date of shipment, to reflect changes in metal market prices and weights and assays. The inclusion in sales of the excess of realizable value over cost of metals on hand is not significant.

(d) Valuation of concentrates, bullion and refined metals Concentrates, bullion and refined metals awaiting settlement, in transit and on hand are valued at estimated realizable value except that, beginning in 1988, a portion of the in-process inventories of C.E.Z. (i.e., a base stock amount required to maintain the continuous smelting and refining process) is priced at cost.

(e) Property, plant and equipment

Mining and smelting—Property, plant and equipment and related expenditures are recorded at cost less applicable investment tax credits and government assistance. Property, plant and equipment includes previously deferred exploration and development expenditures on properties which have been brought into production. Preproduction and development expenditures on projects under construction are capitalized until the commencement of commercial production.

Mineral exploration and development expenditures are charged against current earnings unless they relate to interests in properties where the reserves have the potential of being economically recoverable, in which case the expenditures are deferred. Upon disposal or abandonment of such interests, the net gain or loss is reflected in earnings. If the properties are brought into production, deferred exploration and development expenditures relating thereto are reclassified with property, plant and equipment.

Depreciation of mining assets is provided on the unit-of-production basis over the estimated economic life of the related mine. Depreciation of smelting assets is provided on the straight-line method over periods of 4 to 20 years.

Oil and gas—The company's oil and gas investments consist of its equity interest in Anderson and, until December 31, 1988, its participating interest in Canadian Hunter.

The company follows the full cost method of accounting whereby all costs associated with the exploration for and development of oil and gas reserves, whether productive or unproductive, are capitalized in cost centers on a country-by-country basis and charged against earnings as set out below. Such costs include land acquisition, drilling, geological and geophysical interest and overhead expenses related to exploration and development activities.

Depletion is provided on costs accumulated in producing cost centers using the unit-of-production method based on estimated proven oil and gas reserves. The company periodically reviews the costs associated with unproven properties to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made.

The carrying value of the company's oil and gas investments in producing cost centers is limited to an ultimate recoverable amount which is the aggregate of future net revenues from proven reserves and the costs of unproven properties, net of impairment allowances, less future general and administrative costs, financing costs and income taxes. Future net revenues are estimated using year-end prices.

(f) Income taxes The company follows the deferral method of applying the tax allocation method of accounting for income taxes. Under this method, timing differences between the period when income or expenses are reported for tax purposes and the period when they are recorded in the accounts result in deferred income taxes.

(g) Retirement plans Pension expense or credit includes the amortization, on a straight-line basis, of the difference between the value of the pension fund assets and the actuarial present value of the accrued pension benefits over the expected average remaining service lives of the employee groups covered by the plans. Actuarial valuations are calculated using the "projected benefit" method based on management's best estimates of future interest rates and salary levels. The difference between pension expense or credit and the funding contributions is reflected as a deferred pension asset or liability.

(h) Flow-through shares The company issues common shares ("flow-through" shares) from time to time which entitle the subscriber to earn tax deductions in respect of qualifying exploration expenditures made by the company. The portion of the subscription price of such shares which is based on their market value is credited to share capital. The remainder of the subscription price (the "premium") attributable to the tax benefits transferred to subscribers is credited either to exploration expenditures or capitalized expenditures on properties under development.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands of dollars)

For the years ended December 31	1989	1988
Income from mining and smelting, and oil and gas activities:		
Net sales	\$ 131,685	\$ 109,883
Cost of production	\$ 88,254	67,047
	43,431	42,836
Gain on sale of investments and other assets (note 6)	2,053	1,946
Dividend and interest income	25,452	21,982
Share of profit of Anderson Exploration Ltd.	4,347	571
	75,283	67,335
Deduct:		
Mineral exploration expenses (net of premium on flow-through shares \$1,150 — 1989; \$3,491 — 1988)	20,255	19,858
Write-off of carrying value of Donalda project	7,163	
Depreciation and amortization	28,147	20,620
Interest on long-term debt	18,627	16,711
Administrative and general expenses	2,778	2,449
Minority interest in earnings (loss) of Minnova Inc.	(3,400)	462
Income taxes recovered (note 7)	(10,926)	(3,274)
	62,644	56,826
Net income for the year	12,639	\$ 10,509
Earnings per share	0.72	\$ 0.60

(See notes to consolidated financial statements)

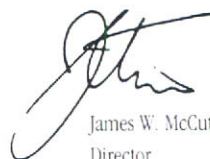
CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

December 31	1989	1988
ASSETS		
Current:		
Cash and short-term securities, at cost which approximates market value (note 10(iii))	\$ 94,691	\$ 128,175
Accounts and interest receivable	8,104	18,079
Concentrates, bullion and metals awaiting settlement, in transit and on hand	43,797	26,114
Supplies and materials, at cost	7,173	8,010
Total current assets	153,765	180,378
Investments and other assets (note 2)	298,583	223,565
Property, plant and equipment (note 3)	210,697	279,363
	\$663,045	\$683,306
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current:		
Accounts payable and accrued charges	\$ 19,511	\$ 23,531
Income and production taxes payable	626	763
Total current liabilities	20,137	24,294
Long-term debt (note 5)	125,000	125,000
Deferred income taxes	6,776	41,249
Deferred gain on sale of interest in Canadian Hunter (note 6)	24,160	
Other deferred liabilities	1,500	5,730
	177,573	196,273
Minority interest in Minnova Inc.:		
Convertible debentures (note 8)	65,000	65,000
Common shares	70,058	73,788
	135,058	138,788
Shareholders' equity:		
Share capital (note 4)	184,409	184,351
Retained earnings	166,005	163,894
	350,414	348,245
	\$ 663,045	\$ 683,306

(See notes to consolidated financial statements)

On behalf of the Board:


Ian D. Bayer,
Director

James W. McCutcheon,
Director

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(in thousands of dollars)

For the years ended December 31	1989	1988
Retained earnings, beginning of year	\$ 163,894	\$ 163,908
Net income for the year	12,639	10,509
	176,533	174,417
Dividends paid (\$0.60 per share in each year)	(10,528)	(10,523)
Retained earnings, end of year	\$ 166,005	\$ 163,894

(See notes to consolidated financial statements)

AUDITORS' REPORT

To the Shareholders of
Kerr Addison Mines Limited:

We have examined the consolidated balance sheets of Kerr Addison Mines Limited as at December 31, 1989 and 1988 and the consolidated statements of operations, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1989 and 1988, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
January 31, 1990



Chartered Accountants

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(in thousands of dollars)

For the years ended December 31	1989	1988
Cash provided by (used in) operating activities:		
Net income for the year	\$ 12,639	\$ 10,509
Items not affecting cash —		
Depreciation and amortization	28,147	20,620
Deferred tax recovery	(10,926)	(2,833)
Other	183	(1,584)
	30,043	26,712
Net change in non-cash working capital balances (receivables and inventories, less payables)	(15,636)	(19,151)
Cash provided by operating activities	14,407	7,561
Cash provided by (used in) investing activities:		
Proceeds on sale of interest in Canadian Hunter	76,500	
Less preferred share consideration received	(58,500)	
	18,000	
Additions to property, plant and equipment	(48,219)	(55,655)
Net purchase of investments and other assets	(6,540)	(4,755)
Investment in common shares of Minnova Inc. and Anderson Exploration Ltd.	(2,166)	(9,083)
Cash used in investing activities	(38,925)	(69,493)
Cash provided by (used in) financing activities:		
Repayment of long-term debt by the company		(10,000)
Issue of common shares by the company	58	155
Issue of common shares by Minnova Inc.	2,926	8,769
Cash provided by (used in) financing activities	2,984	(1,076)
Dividends paid (including \$1,422 in 1989 and \$1,395 in 1988 to minority shareholders of Minnova Inc.)	(11,950)	(11,918)
Decrease in cash during year	(33,484)	(74,926)
Cash and short-term securities, beginning of year	128,175	203,101
Cash and short-term securities, end of year	\$ 94,691	\$ 128,175

(See notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1989 and 1988

1. Accounting policies The principal accounting policies followed by the company are detailed under the caption "Accounting Policies."

2. Investments and other assets

<i>(in thousands)</i>	1989	1988
Investments in associated companies:		
Noranda Inc.	\$119,449	\$119,449
812039 Ontario Limited, a subsidiary of Noranda Inc. (note 6)	58,500	
Anderson Exploration Ltd.	84,737	80,390
Other investments, at cost	26,155	15,834
Other assets	9,742	7,892
	\$298,583	\$223,565

(a) Noranda Inc.—At December 31, 1989 and 1988, the company owned 7,361,281, or 4.0%, of the outstanding common shares of Noranda Inc. Noranda and its associated companies are engaged in businesses encompassing mining

and metallurgy, manufacturing, forest products and oil and natural gas exploration and production. At December 31, 1989, the quoted market value of the shares was approximately \$178 million.

(b) Anderson Exploration Ltd.—At December 31, 1989, the company owned 6,202,281, or 34.2%, of the outstanding common shares of Anderson which is engaged in the exploration and production of oil and gas properties in Western Canada. At December 31, 1989, the quoted market value of the company's investment was approximately \$117 million.

(c) Other investments—Included in Other Investments at December 31, 1989 are investments, at a cost of \$7.8 million, in exploration companies whose underlying properties have not yet been determined to contain economic ore reserves. The recoverability of these investments is dependent upon the discovery of economically recoverable reserves and future profitable production therefrom or the sale of the investments.

3. Property, plant and equipment

<i>(in thousands)</i>	1989		1988	
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
Mining and smelting:				
Producing properties				
Plant and equipment	\$215,456	\$ 96,080	\$119,376	\$ 74,050
Preproduction and development expenditures	146,429	55,108	91,321	42,826
	361,885	151,188	210,697	116,876
Properties under development				82,654
	361,885	151,188	210,697	199,530
Oil and gas				79,833
	\$361,885	\$151,188	\$210,697	\$279,363

4. Share capital In 1989 and 1988, common and preferred shares without par value are authorized for issuance in an unlimited number. The changes in common shares issued for the years 1989 and 1988 are set out below:

	1989		1988	
	Shares	Amount (000s)	Shares	Amount (000s)
Issued, beginning of year	17,544,527	\$184,351	17,535,177	\$184,196
Issued under employee share purchase and option plans	3,650	58	9,350	155
Issued, end of year	17,548,177	\$184,409	17,544,527	\$184,351

At December 31, 1989, options on 21,550 common shares were outstanding, exercisable at prices varying from \$15.11 to \$19.87 for periods up to 1998.

5. Long-term debt The company has a line of credit with its bankers which expires January 1, 1991. Advances totalling \$70 million are funded by bankers' acceptances. The effective interest rate payable on the bankers' acceptances is 12.82% at December 31, 1989. A further \$55 million of floating rate long-term debt is provided by Noranda Inc. The debt matures on January 1, 1991, and the rate of interest is 12.55% at December 31, 1989. No assets have been pledged as collateral for the long-term debt.

6. Gain on sale of investments and other assets

<i>(in thousands)</i>	1989	1988
Gain on sale of interest in Canadian Hunter Joint Venture	\$ 7,610	
Gain on issuance of share capital by subsidiary	412	\$ 995
Loss on sale of investments	(5,923)	
Gain (loss) on sale of fixed and other assets	(46)	951
	\$ 2,053	\$ 1,946

Effective January 1, 1989, the company sold substantially all of its 13% interest in the Canadian Hunter Joint Venture to 812039 Ontario Limited, a subsidiary of Noranda Inc. for total proceeds of \$76.5 million comprised of \$18.0 million of cash and \$58.5 million of redeemable preferred shares of 812039 Ontario Limited. The preferred shares pay cumulative dividends at the rate of 70% of bank prime and are redeemable in five equal annual amounts commencing March 31, 1990. Each annual redemption is conditional upon the average specific contract price paid by Trans Canada Pipelines Limited to gas producers in Alberta for the preceding twelve month period exceeding \$1.35 per MCF in constant 1988 dollars. If a required annual redemption is not made, the obligation carries forward on a cumulative basis to the next year.

Because of the conditions attaching to the redemption of the preferred shares, the total gain on the sale of \$31.8 million is being recognized in income only as cash payments are received by the company. Accordingly, \$7.6 million was reflected as income in 1989 and the balance of \$24.2 million has been deferred to future years.

7. Income taxes The income tax recoveries for the years 1989 and 1988 are analyzed in the following table to show the difference between the taxes that would be payable by applying statutory tax rates to pre-tax earnings, and the tax recoveries shown in the accounts:

<i>(in thousands)</i>	1989	1988
Earnings before income taxes	\$ 1,713	\$ 7,235
Statutory tax rates	43.3%	47.0%
Tax at statutory rates	\$ 742	\$ 3,400
Adjusted for the effect of —		
Resource allowance	(2,652)	(\$3,550)
Depletion allowance		(895)
Flow-through exploration expenditures	3,851	2,891
Non-taxable income	(15,716)	(7,876)
Other (net)	2,849	2,756
Income taxes recovered, as recorded in the accounts	\$ (10,926)	\$ (3,274)

8. Convertible debentures of Minnova Inc. The adjustable rate convertible subordinated debentures are unsecured obligations of Minnova. The debentures mature on September 30, 2007, and pay interest at a rate per annum equal to the greater of (i) 5% and (ii) 1% plus the percentage that two times the dividends paid on the common shares of Minnova in the six months ended on the date six months prior to the interest payment date is of the conversion price. The debentures are convertible at the holder's option into common shares of Minnova on or before the earlier of September 29, 2007 and the last business day prior to redemption, at a conversion price of \$34.25 per common share. At any time after September 30, 1992, Minnova may adjust the conversion price to \$38.00, provided that Minnova also fixes the interest rate at 6% per annum.

The debentures are redeemable by Minnova at par plus accrued interest after September 30, 1992 and, at any time prior to that date, at 105% of par plus accrued interest if at least 85% of the original principal amount of the debentures have been converted. On September 30, 2007, Minnova has the option to retire any debentures then outstanding by issuing common shares at the average closing market price for the 30 trading days prior to maturity. The characteristics and attributes attaching to the debentures, including Minnova's option to apply the proceeds of redemption of the debentures at maturity to subscribe for and purchase common shares, causes Minnova to view these securities as permanent capital.

9. Segmented information In 1989, the company operated primarily in one industry—mining and smelting, and in one geographic area—Canada. The mining and smelting industry is comprised principally of the mining operations of Minnova and the zinc reduction activities of C.E.Z. In 1988, the

company also operated in the oil and gas industry through its interest in Canadian Hunter. Information regarding industry segments is set out in the table below:

<i>(in thousands)</i>	Industry Segments				
	Mining and Smelting (i)		Oil & Gas	Consolidated	
	1989	1988	1988	1989	1988
Net sales	\$ 131,685	\$ 95,671	\$ 14,212	\$ 131,685	\$ 109,883
Cost of production	88,254	61,865	5,182	88,254	67,047
	43,431	33,806	9,030	43,431	42,836
Mineral exploration expenses	(20,255)	(19,858)		(20,255)	(19,858)
Write-off of Donalda project	(7,163)			(7,163)	
Depreciation and amortization	(28,147)	(14,650)	(5,970)	(28,147)	(20,620)
Segment operating profit (loss)	\$ (12,134)	\$ (702)	\$ 3,060	(12,134)	2,358
Income and expenses not allocated to industry segments (net)				24,773	8,151
Net income for the year				\$ 12,639	\$ 10,509
Identifiable assets	\$ 284,274	\$ 300,479	\$ 87,231	\$284,274	\$387,710
Investments and other assets				378,771	295,596
Total assets				\$ 663,045	\$683,306
Capital expenditures	\$ 47,296	\$ 43,443	\$ 13,118	\$ 47,296	\$ 56,561

(i) Canadian production includes exports of \$37,266 (\$26,460 in 1988) primarily to customers in the United States.

10. Related party transactions The company is a subsidiary of Noranda Inc. Details of significant transactions with the Noranda Group for the years 1989 and 1988 are set out below:

(i) Canadian Electrolytic Zinc ("C.E.Z.")—The company's portion of zinc concentrate purchased on the company's behalf by C.E.Z. from the Noranda Group amounted to approximately \$16,939,000 (1988—\$12,397,000).

(ii) Marketing and administrative services—The Noranda Group markets substantially all of the company's production and renders technical and administrative services to the company. During the year marketing fees were \$480,000 (1988—\$429,000) and fees for technical and administrative services were \$205,500 (1988—\$175,900).

Copper and zinc concentrates and gold bullion sales by the company to Noranda Inc. during 1989 amounted to approximately \$107,943,000 (1988—\$77,917,000).

(iii) Short-term securities—The company participates in a short-term investment pool with the Noranda Group. The pool is operated to provide participating companies with the opportunity to invest or borrow funds on a short-term demand basis within the Noranda Group. During 1989, the company earned interest on net deposits amounting to \$1,497,000 (1988—\$1,556,000). At December 31, 1989, the company's indebtedness to the pool was \$1,810,000 (1988—deposit of \$30,670,000).

The company has a \$100,000,000 (\$100,000,000 in 1988) investment in the common shares of an affiliated company. These shares, whose cost approximates market, are included in short-term securities. Dividends received on these shares during the year amounted to \$9,284,000 (1988—\$7,535,000).

(iv) Effective October 1, 1988, the company and Minnova consolidated certain of their exploration properties into a 50/50 joint venture operated by Minnova. Following an initial payment by the company of \$625,000, all joint venture costs on these and subsequently acquired properties are shared equally. For the year ended December 31, 1989, the company's share of the costs was \$3,245,000 (\$1,085,000 for the three months ended December 31, 1988).

11. Commitments and Contingencies**(a) Capital expenditure commitments—**

Capital expenditure commitments for 1990 are estimated to be \$14,000,000.

(b) Forward metal sales—

Gold—At December 31, 1989, 25,600 troy ounces of gold are contracted for delivery in various quantities monthly from January 1990 through December 1990 at an average price of U.S. \$452 per ounce.

Copper—At December 31, 1989, 30 million pounds of copper are contracted for delivery in various quantities monthly from January 1990 through July 1990 at an average price of U.S. \$1.12 per pound.

Silver—At December 31, 1989, 2.5 million troy ounces of silver are contracted for delivery in various quantities monthly from August 1990 to April 1992 at an average price of U.S. \$7.10 per ounce.

12. Retirement plans The company has retirement plans covering substantially all employees. Based on the most recent actuarial valuation of the plans at January 1, 1988 extrapolated to December 31, 1989, the estimated actuarial present value of accrued pension benefits and the estimated value of the pension fund net assets available to provide for these benefits are as follows:

<i>(in thousands)</i>	1989	1988
Accrued pension benefits	\$17,107	\$17,433
Pension fund assets	\$32,408	\$29,488

13. Litigation Minnova's 100% ownership of its Winston Lake mine is subject to a 10% net proceeds of production royalty under the terms of the original 1980 option agreement. In December of 1987, an action was instituted against Minnova alleging, among other things, that under the option agreement the previous owner is entitled to purchase a 20% participating ownership interest in the mine rather than the 10% net proceeds of production royalty.

Minnova's 95.4% ownership interest in its Lac Shortt gold mine is subject to a 7.5% net proceeds of production royalty under the terms of the original 1979 option agreement. In January of 1988, an action was instituted against Minnova alleging, among other things, that the annual royalty calculations performed by Minnova pursuant to the 1979 agreement were not done in accordance with the agreement.

Minnova believes that its defences to these actions are meritorious and is vigorously defending each action and accordingly no provision has been made in the accounts.

DIRECTORS

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- Jack L. Cockwell
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Chief Operating Officer
Brascan Limited
- P.S. Cross, P.Eng.
Consultant
Kerr Addison Mines Limited
- J.A. Hall
Company Director—Mining Engineer
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*Member of Executive Committee

†Member of Audit Committee

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